E-001/M-94-384 ORDER REJECTING PROPOSED BULK SUPPLY RATE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner

In the Matter of Interstate Power Company's Petition for Approval of a Bulk Supply Tariff for Large Power and Light Customers

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PROCEDURAL HISTORY

On April 21, 1994 Interstate Power Company filed a proposal to offer a Bulk Supply rate to qualifying Large Power and Light customers. On May 24, 1994 the Department of Public Service (the Department) filed comments recommending rejecting the proposal on grounds that the rate components did not adequately reflect the cost of service.

The Company filed a reply on June 1, 1994. The Department made a supplemental filing on June 23, 1994.

The matter came before the Commission on July 21, 1994.

FINDINGS AND CONCLUSIONS

I. The Company's Proposal

The Company based the proposed rate on its Large Power and Light rate. It eliminated the Large Power and Light rate's $57 customer charge, increased the demand charge, and lowered the energy charge. It set the Bulk Supply demand charge at $10.62 per kilowatt per month, as opposed to $5.94, and the energy charge at 2.210 cents per kilowatt hour, as opposed to 3.668 cents.

To qualify for the Bulk Supply rate a customer must have a load of at least five megawatts, a load factor of at least 54.80%, and must take power at the transmission voltage. The minimum monthly bill, given load and load factor eligibility requirements, would be $97,300.

The Company did not supply a marginal cost study or class cost of service study showing how the rate and its components compare with the cost of service, but promised to do so in a future rate case. In the mean time, the fact that the rate was based on an existing approved rate, the Large Power and Light rate, was offered as assurance that the rate was cost-based.

The Company said none of its present Minnesota customers would qualify for the rate, but it had received an inquiry from a potential customer who might. Since the customers the rate targets benefit the system (by contributing substantially to the recovery of fixed costs without substantially increasing those costs), the Company wanted the rate in place to attract such customers to its service territory.

II. The Department's Objections

The Department objected to the proposed rate on grounds that its components did not accurately reflect the components of the cost of service. It claimed the Company's last approved class cost of service study, from its 1991 rate case, is the best available tool for analyzing the cost of serving Bulk Supply customers. That study places the demand cost for Large Power and Light customers at about $6.51 per kW, the energy cost at about 3.179 cents per kWh, and the customer cost at about $162.

Although Bulk Supply costs would be different from Large Power and Light costs, the Department believed the main difference would lie in lower demand costs. The Bulk Supply rate, of course, takes the opposite approach, featuring significantly higher demand charges and lower energy charges than the Large Power and Light rate.

Although the proposed rate would recover the cost of service, the Department argued that mispricing its components would undermine the central rate design principle that both rates and their component parts should closely reflect the cost of service.

III. Commission Action

The Commission will reject the proposed rate because its components do not reflect costs accurately enough for a standard rate. Generally, demand costs decline much more markedly than energy costs as load factors improve. The proposed rate, intended to attract and reward customers with high load factors, takes the opposite tack. It raises demand charges and reduces energy charges.

Of course, the proposed rate does give targeted customers an overall price break, reflecting the efficiencies their high load factors bring to the system. The proposed rate also appears to cover overall costs.

Nevertheless, the disparity between the rate components and the costs they represent cannot be ignored. Rates and their individual components generally correspond closely to the cost of the service or service element they represent. At the least, cost is the starting point in rate design decisions, which may require consideration of other factors, such as social value or ability to pay, to meet specific statutory or public policy goals. In this case, there is no clear reason to set rate components so at variance with the costs they represent.

This is especially true in light of the fact that the rate proposed is a new standard rate, applicable to a whole class of customers. Standard rates quickly become integral parts of the rate structure, an indivisible mechanism for recovering the revenue requirement. Once a standard rate is approved and goes into use, changing it eventually requires changing other rates to prevent overor under-recovery. The Commission would need a strong showing of correlation between rate components and costs, or a strong policy rationale for subordinating cost factors to other concerns, to approve this rate as a standard rate.

At the same time, it is important to note that the Commission has long supported, and continues to support, non-standard rates tailored to meet the specific needs of individual customers when supported by the public interest. Flexible rates, competitive rates, area development rates are all cases in which the Commission has approved rates that might not survive the kind of scrutiny given to proposed standard rates. Different criteria apply to such rates because they are temporary, customer-specific, and statutorily authorized. They do not have the same capacity as standard rates to skew long-term, overall cost allocations and rate structures.

For the reasons set forth above, the Commission will reject the Company's proposed Bulk Supply tariff.

ORDER

1. Interstate Power Company's petition to introduce a Bulk Supply tariff is rejected.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)